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C O N F I D E N T I A L LIBREVILLE 000224

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [GB](#)
SUBJECT: GABON WILL SEEK EARLY PARIS CLUB REPAYMENT
FOLLOWING IMF AGREEMENT

REF: A. LIBREVILLE 126
[1](#)B. 06 LIBREVILLE 446
[1](#)C. 06 LIBREVILLE 167

Classified By: DCM: K. Dhanani. Reason: 1.4 (b) & (d).

[1](#)1. (C) Summary: On May 10, the Gabonese Finance Minister briefed the cabinet on Gabon's new three-year IMF agreement, and said the GoG will now seek early repayment of Paris Club debt. Gabon's external debt burden is moderate and declining, thanks to high oil prices, although new borrowing is up sharply over the last two years. The Paris Club is unlikely to offer Gabon a deep discount, but the GoG will (with justification) tout any Paris Club deal as the consequence of the current government's wise policy choices. End summary.

[1](#)2. (U) Finance Minister Paul Toungui briefed his government colleagues on Gabon's three-year Stand-By Arrangement (SBA) with the IMF (Ref A) during the GoG's May 10 cabinet meeting. The cabinet's press release reported that the SBA was based on three pillars: consolidation of sound macroeconomic management, with a sustainable non-oil budget deficit; strengthened public expenditure management; and acceleration of structural reform to establish a foundation for private sector led development. For domestic public consumption, the GoG has stressed the SBA's provision of \$117 million in drawing rights, without noting that these are precautionary only, i.e. there is no expectation that Gabon will use or require any financing from the IMF. According to the press release, the cabinet's discussion of the SBA concluded with the statement that Gabon will shortly request negotiations with the Paris Club to arrange an early repayment of Gabonese debt, at a "significant discount."

[1](#)3. (C) Since Gabon doesn't need IMF funding, the GoG's motivation for seeking an SBA (and thereby tying its own hands) is not immediately evident. Reformers in government, including Minister Toungui, have sought a formal arrangement with the IMF in order to safeguard sound fiscal policy and build momentum for institutional change. The IMF reports that a desire to negotiate with the Paris Club has also been a major factor underlying Gabon's persistent pursuit of an SBA (Ref C); Paris Club rules require that debtors have an agreement with the IMF before they request debt treatment.

[1](#)4. (C) The GoG's desire to engage with the Paris Club is not founded in debt sustainability problems. A recent GoG briefing to donors on Gabon's official debt confirmed that the country's debt burden is declining and sustainable. Gabon's external public debt declined from 63% of GDP in 2002 to just 33% in 2006, and is projected to fall to 13% in 2010. The debt-to-export ratio was 118% in 2002, 49% in 2006 and

is projected to decline to 23% in 2010. Debt service to exports has declined similarly, from 27% in 2001 to just 11% in 2005. IMF analysis suggests that swiftly declining debt ratios are robust even if there are unfavorable surprises in growth or interest rates. Debt will level off, rather than decline, if petroleum prices or terms of trade deteriorate sharply.

¶5. (C) During the donor briefing, both the GoG's Deputy Director General of Public Accounts, Theophile Nkue Nguema, and the IMF Resident Representative in Gabon expressed concern about transparency of new debts taken on by the GoG. Nguema admitted that his office has to monitor cabinet press releases to learn about new GoG commitments, and often finds out about new debt many months after it is contracted. He said that Finance Ministry civil servants have no information about any commitments to China in exchange for recent public infrastructure investments. IMF staff report that Gabon may have taken on a total of \$800 million in commitments in the last eighteen months (Ref C); this contrasts sharply with only about \$250 million in new borrowing between 2001 and ¶2005.

¶6. (C) Comment: The windfall of high oil prices has exponentially multiplied the dividend of relatively responsible macroeconomic policy in reducing the burden of Gabonese public debt. There is some concern that new loans contracted outside the regular budgetary process (including U.S. Ex-Im Bank financing for a road project) threaten to undermine this progress.

¶7. (C) Comment cont.: Post understands that the Paris Club is likely to offer only a modest discount if Gabon pursues early repayment. It is not clear to us whether Toungui and the rest of the GoG share this understanding. In any case, we

anticipate that any early repayment of Paris Club debt will be spun as a ringing endorsement of the policies of the current government. While the Paris Club may not view early repayment in those terms, the GoG does deserve credit for resisting the temptation to squander the oil windfall on current expenditures. Instead, Gabon's budget surplus in 2006 was over 10% of GDP, and represented a third of revenue.

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